HOUSING MARKET OUTLOOK

Kelowna - Fall 2005

Canada Mortgage and Housing Corporation

www.cmhc.ca

RESALE MARKET

SALES FLATTEN OUT IN 2006

Kelowna area home sales will remain at high levels in 2006. Expect sales to begin flattening out in response to sharply rising prices and slightly higher interest rates. Soaring condo and townhouse sales will push resale market activity to another record high in 2005. Prices, though continuing to trend up, will see smaller increases next year. Kelowna's resale market will remain a seller's market in 2006.

Market fundamentals remain solid. The BC economy will continue to expand in 2006. People are coming back to BC, robust employment growth boosting in-migration from other provinces.

The Kelowna area economy is firing on all cylinders, the unemployment rate dropping to decade lows.

Sales remain at high levels in 2006. Prices see smaller increases next year.

Strong employment growth has, in turn, fueled demand for both new and resale housing. Retirees and more recently, an influx of others seeking lifestyle-oriented housing have also contributed to sharply increased demand. Kelowna is now seeing more broadly based population growth - retirees, lifestylers ***and*** job seekers.

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HOUSING MARKET OUTLOOK is CMHC's bi-annual forecast for new and resale home markets. Issues are released in the spring and fall each year.

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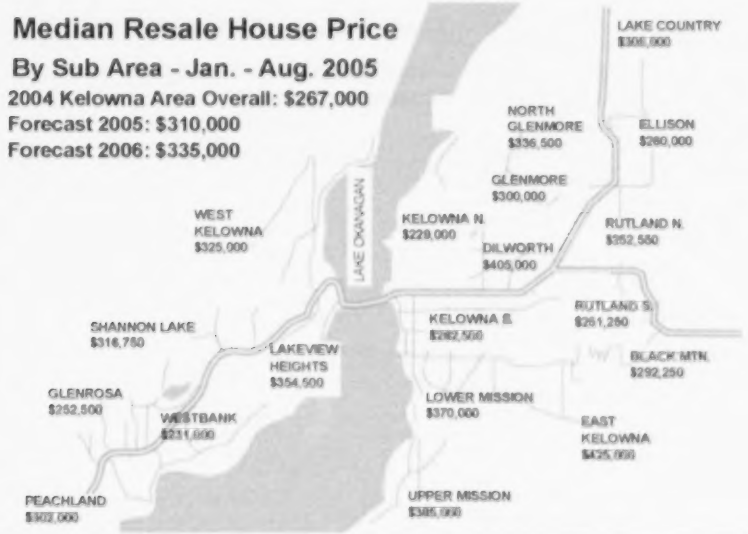
Median Resale House Price

By Sub Area - Jan. - Aug. 2005

2004 Kelowna Area Overall: $267,000
Forecast 2005: $310,000
Forecast 2006: $335,000



CMHC SCHL
HOME TO CANADIANS

The resales singles sector will post another strong performance in 2006, sales dropping back slightly from this year's record pace. Sharply rising prices have lead to stronger competition from both

the new singles and new and resale multi-family sectors. Higher density housing has now become more widely accepted among Kelowna area first-time buyers - the change representing a major shift in buyer attitudes.

The supply of singles listings will edge back up as demand levels out later next year. Overall, supply will remain tight in 2006. Strong demand in combination with reduced supply and expectations of big price gains, continue to drive up list prices. The market has seen a dramatic shift in the price distribution of singles listings since 2002. The lower price ranges have been substantially depleted. For now, move-up buyers remain the focus of resale singles demand.

The median resale house price will break the $300,000 mark for the first time ever, rising 16% to $310,000 in 2005. Prices have seen double-digit increases for three straight years, climbing 64% since 2002. The increase is unprecedented. Look for smaller price gains next year. The median resale house price will move up another eight per cent, reaching $335,000 in 2006.

The core area, Rutland, Glenrosa and Westbank remain the most modestly priced locations. Black Mountain, Glenmore, Lake Country, North Glenmore, Peachland and, Shannon Lake are the focus of buyers seeking mid-price detached units, houses in the $300,000-$350,000 price range. Southeast Kelowna, Dilworth and sections of North Glenmore, Lakeview Heights and West Kelowna command the highest prices.

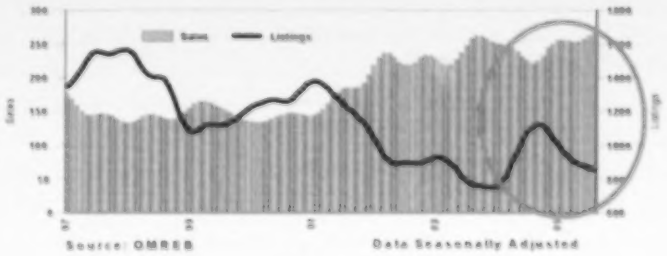
The resale condo and townhouse markets have surged ahead this year, growth in sales outpacing the singles sector. Affordability and lifestyle have been key drivers. With few singles priced at less than $250,000, more first-time buyers are now turning to multi-family housing. Retirees, move-down buyers and lifestylers remain big sources of demand. Also, tight rental market conditions, rising rents

Price Distribution of MLS ® Singles Listings		
Price Range	2005*	2002*
< $200,000	1.0%	30%
$200-$299	19%	30%
$300-$399	28%	17%
$400-$499	19%	8%
$500,000+	33%	15%
* August		

and low cost of financing have lead to more interest by investors. The supply of listings has declined sharply despite high levels of completions. Sales, though continuing to trend up, will increase at a more moderate pace in 2006.

The median resale condo and townhouse price will jump 16% and 22% to $185,000 and $225,000, respectively, in 2005. Strong, more broadly based demand will mean sustained upward pressure on prices next year. Prices will continue to trend up. Expect to see smaller increases in 2006 as more supply becomes available.

Chart 2 - Sales and Listings
Single-Detached Units



Expect singles sales to flatten out but remain at high levels overall through 2006.

HOUSING STARTS REMAIN AT HIGH LEVELS IN 2006

Kelowna area housing starts will ease back following this year's big surge in multi-family construction activity. Housing starts will dip to 2,400 units in 2006. Rising prices, higher interest rates and production constraints point to fewer starts next year. Kelowna's new home market will continue to see a very high level of activity despite the decline. Housing starts, lead by the multi-family sector, will total 2,700 units in 2005 - ***a record high.*** For the first time since the early 1980s, multi-family starts - combined semi-detached, townhouse and apartment units - will surpass singles starts.

The singles sector will remain buoyant through 2006. Absorption has held up, keeping the inventory of complete and unsold units low.

The move-up, move-down and retiree markets will, once again, remain the biggest source of new singles demand. Lifestyle-oriented housing, neighbourhoods which bring together the right combination of housing form, setting and amenities, will stay front and centre. Lake and valley view properties remain the strongest performers. Adult community projects also remain big sellers. Though hugely popular, this type of development faces a growing scarcity of large, flat core area sites. Expect to see at least one smaller core area project come on stream next year.

More builders are now targeting first-time move-up buyers and others seeking mid-priced detached housing, until this year, a largely untapped market. Sales have been brisk. Pent-up demand, skyrocketing resale house prices and greater availability of manufactured home sites and mid priced lots, will lead to more opportunity for expansion in 2006.

Housing starts, lead by multi-family sector, reach record high in 2005

Strong demand for more upscale housing, rising lot prices and other costs will keep new home prices high. The median new home price will reach $370,000 and $385,000 in 2005 and 2006, respectively. The average time to build a detached unit has jumped to almost seven months this year from only four months in 2000. Larger, more complex homes, more challenging hillside building sites and an ongoing shortage of skilled trades have all contributed to extended construction times. Delays, have, in turn pushed up costs and new home prices.

Lot prices continue to trend up sharply in response to strong demand and tight supply. Higher land and land development costs, leap frogging services past lands in the Agricultural Land Reserve, Development Cost Charges and more costly hillside development have all contributed to rising lot prices.

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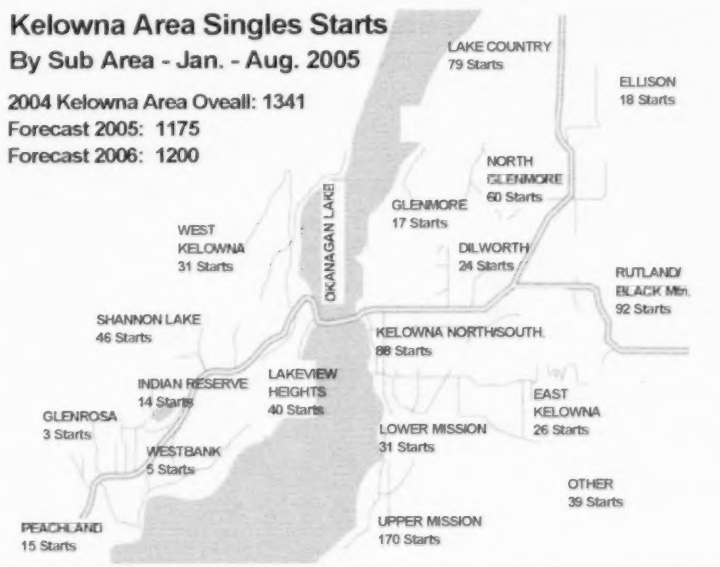


Lot supply has just barely kept pace with demand. The focus of singles construction is shifting outward as municipalities extend infrastructure into new areas. Dilworth Mountain, Gallaghers Canyon and Quail Ridge - long standing sources of higher end building lots - have moved ahead with their final phases. Lake Country, North Glenmore, Black Mountain, Kirschner Mountain, West Kelowna, Shannon Lake and Peachland have seen new subdivisions, including several large multi-phase developments, come on stream over the past eighteen month period. Construction activity is following lot supply. More developments are now targeting ***mid*** rather than higher end buyers, offering lots in the $100,000-$120,000 price range.

The median lot price will climb to $135,000-$140,000 in 2006. The $100,000-$110,000 price range now represents the low end in most new subdivisions. Premium lake, city and valley view lots are commanding prices in the $175,000-$200,000 plus range. The median lot price will reach $130,000 this year, up 13% from $115,000 in 2004. Rising lot prices will continue to push up the cost of new housing.

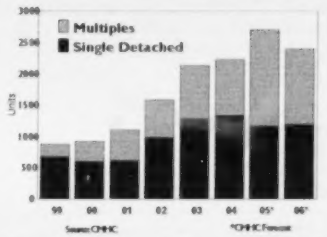
Condo starts will soar to record highs in 2005. Retiree and move down buyers have remained key sources of demand. The resort/lifestyle markets have evolved quickly, segmentation by product type - tenure, location, building type and range of amenities - the key to expansion. Many are second residences, investor-owned units or purchased in anticipation of retirement. Resort and conventional housing markets continue to see more and more overlap.

The condo market has moved in new directions, attracting a broader range of buyers over the past year. With the price of both new and resale detached units up sharply, more first-time buyers are turning to the new condo and townhouse markets. Take-up among projects offering lower to mid priced units has been strong. Look for more first-time buyer oriented projects in 2006.

More first-time buyers are turning to the new condo and townhouse markets.

Prices have trended up sharply, each project pushing the price envelope to new highs. The up-tick reflects both soaring construction costs and strong demand for upscale product. Absorption remains brisk. Condo and townhouse inventories are at historical lows. Pre sales are holding up - almost 75% of units under construction have already been sold.

Chart 3 Kelowna Housing Starts



Starts reach record high in 2005.

Kelowna saw its first loft units in 2004. More loft style units and high rise towers are on the way. Multi-family housing is becoming more widespread. Look for more low and medium density projects in Rutland, Peachland and the west side in 2006.

Condo starts will drop back from this year's record pace, the

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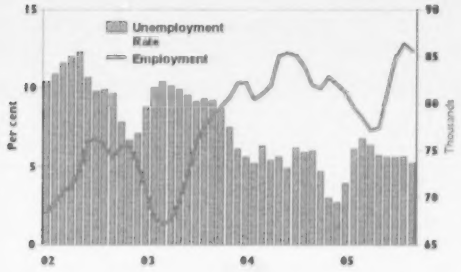
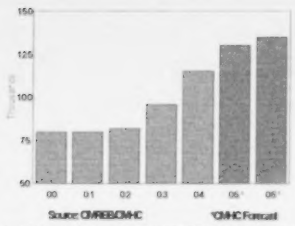
Strong Employment Growth Boosts Demand For Housing



The Kelowna area economy continues to see strong, broadly-based growth, churning out jobs. Employment growth has trended up sharply since mid 2003, the unemployment rate plummeting to decade lows. Kelowna is now seeing more full time, better paying jobs, a big change from just a few years ago. Stronger employment growth has, in turn, spurred in-migration, boosting demand for new and resale housing. The construction and manufacturing sectors have been the biggest sources of job creation. Looking forward, an aging population and in-migration of retirees points to long term growth in demand for health care workers. UBC Okanagan will also generate significant employment opportunities.

Chart 4 Median Lot Sale Price



decline due more to production than demand side constraints.

The Kelowna area condo market will become ***increasingly competitive*** in 2006. The market has begun to see more speculative buying, buyers purchasing one or more units with the intention of reselling, often before the building is complete. Strong demand and sharply rising prices are fueling expectations of quick turnover and big gains.

Townhouses have recaptured a slice of the new home market, regaining popularity lost through the mid 1990s. Once again, price and lifestyle remain key drivers. Sales among first-time buyer oriented projects have been especially strong. Look for more projects in Rutland, Mission and the West side in 2006.

Kelowna's seniors housing market will see fewer new projects in 2006. Five congregate housing and assisted living projects, totaling 500 units are currently under construction. The Province will continue with its roll out of assisted living units and care beds, construction beginning on two care projects next year.

RENTAL MARKET

RENTAL MARKET REMAINS TIGHT

The Kelowna area rental market will remain tight this year and next. The vacancy rate will dip below 1% in 2005 - the lowest level since the early 1990s. Strong employment and population growth have boosted demand for rental accommodation, pushing vacancy rates down. Rental housing starts continue to lag behind growth in demand, contributing to low vacancy rates. Looking forward, plans to double enrollment at UBC Okanagan point to steadily rising demand over the next several years.

Rents will continue to trend up in response to sustained low vacancy rates. Average rents will jump another 3-3½ % in 2005, one and two bedroom apartment rents climbing to $607 and $745, per month, respectively. Look for a similar increase in 2006.

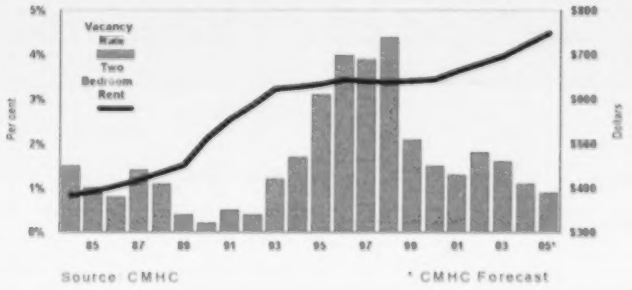
Despite low vacancy rates, rental housing starts will total only 30 units this year and 50-75 units in 2006. With demand for condominiums on the upswing, builders are, for now, focusing on the ownership market. Also,

Rental market remains tight ... rents trend up.

rental construction has become increasingly problematic in the face of sharply rising land and other costs.

Other types of housing have helped pick up the slack. Attached "carriage homes", and in-unit secondary suites - "mortgage helpers" have become increasingly popular. Investor-owned and resort condos and condos purchased as second residences are also a growing source of rental accommodation.

Chart 5 Overall Vacancy Rate and Two Bedroom Apartment Rent



Source: CMHC * CMHC Forecast

Vacancy rate will remain low this year and next. Once again, sustained low vacancy rates will continue to push up rents.

ECONOMY AND POPULATION GROW IN 2006

The Kelowna area economy, will continue to grow in 2006. Strong population growth and diversification have been the key to sustained economic expansion. In-migration of retirees, and more recently, lifestylers *and* job seekers have led to sharply rising demand for services and housing. The

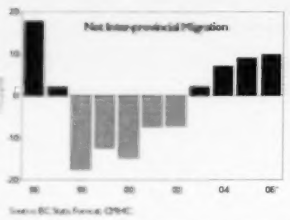
Construction and manufacturing sectors biggest sources of employment growth.

residential construction, manufacturing and personal services sectors are the biggest sources of job creation. Small business has become the engine of growth. Kelowna has also seen a growing trend towards self-employment. The unemployment rate has steadily declined during the past eighteen month period, dipping to the among the lowest levels in over a decade. Both the construction and manufacturing sectors face an increasingly acute shortage of skilled workers. The shortage is becoming more widespread, extending across all skill levels and industry sectors.

Plans to expand Okanagan University College to a full service University - UBC Okanagan - have now become a reality. *Enrollment is expected to double by 2010.* The longer term impact on the Kelowna area economy will be significant-profile, direct and spin-off employment, capital expenditure research dollars *and* demand for housing.

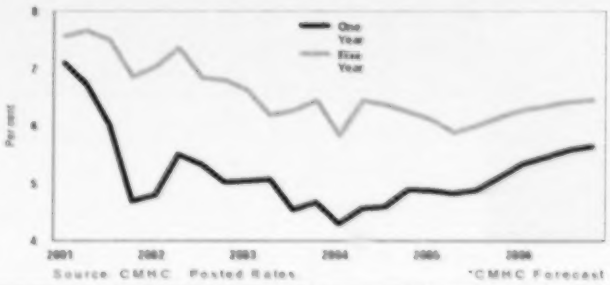
The BC economy will record solid growth through 2006. Though growth is expected to moderate this year and next, the BC economy will, once again, outperform Canada overall and lead the provinces in job creation. Strong employment growth - mainly full time, private sector jobs - has, in turn, attracted migrants from other provinces. Net inter-provincial migration almost doubled in 2004 and is forecast to increase through 2005 and 2006. Historically, people moving to BC from other provinces - especially - Alberta and Ontario - have been a major source of Kelowna area housing demand. Also, a strong Vancouver real estate market has lead to more migrants from the lower mainland. The Kelowna area population will grow by 2.0-2.5% in 2005 and 2006.

Chart 6 Coming Back to BC



Low mortgage rates will continue to support high levels of sales and construction activity. Mortgage rates are on the rise, but will remain low by historical norms. A strong Canadian dollar and tame inflation will restrain the speed and size of increases. Expect mortgage rates to edge up 25-35 basis points overall in 2005 and another 25-50 basis points next year. One, three and five mortgage rates are forecast to be in the 4.50-5.75, 5.25-6.25 and 5.50-6.50 per cent ranges, respectively in 2006. Many lenders are continuing to offer discounted rates.

Chart 7 Mortgage Interest Rates



Mortgage interest rates edge up in 2005 and 2006.

HOUSING MARKET OVERVIEW

Resale Market Remains Strong in 2006

- Singles sales will flatten out next year, dropping back slightly after reaching record highs in 2005. Sharply rising prices, higher interest rates and stronger competition from the new and resale multi-family sectors point to fewer sales next year. The median resale house price will see double-digit price increases for the third straight year in 2005, jumping another 16% to $310,000. Prices will see smaller gains climbing 8% to $335,000 in 2006. The Kelowna area resale singles market will remain firmly in sellers' market territory. Condo and townhouse sales will increase again, affordability and lifestyle the key drivers.

Starts Down - Remain at High Levels in 2006

- Kelowna area housing starts will ease back following this year's big surge in multi-family construction activity. Housing starts will remain at high levels, edging down to 2,400 units in 2006, fewer condominium starts accounting for the decline. Expect starts to reach 2,700 units in 2005, a record high. For the first time since the early 1980s, multi-family starts will exceed singles starts.
- The singles sector will remain buoyant through 2006. Though move-up, retiree and move-down markets will remain the focus of demand next year, more builders are targeting buyers seeking modest, mid-priced detached units - until recently, a largely untapped market. This segment of the market will see stronger growth, pent-up demand and greater availability of manufactured home sites and moderately priced building lots leading to more opportunity for expansion in 2006. New home prices will continue to trend up in response to rising lot prices and other costs. The median new home price will increase to $370,000 and $385,000 in 2005 and 2006, respectively.
- The focus of singles development is shifting outward, new subdivisions coming on stream in Black Mountain, Westbank and Lake Country. More developments are now targeting mid rather than higher end buyers.
- Apartment condo starts will drop back from this year's record pace, the decline due more to production rather than demand side constraints. More first-time buyers are now turning to the multi-family sector. Retirees and buyers seeking resort and other lifestyle-oriented housing remain key markets. Absorption remains strong, keeping inventories low.
- Mortgage rates will remain low, edging up this year and next.
- The Kelowna area economy and population will continue to grow in 2006. Construction, manufacturing and personal services sectors remain the biggest sources of job creation. Kelowna's unemployment rate has dropped to decade lows. Shortages of skilled workers are becoming more widespread. UBC Okanagan will become an increasingly significant contributor to economic growth. Kelowna is now seeing more broadly based population growth - retirees, lifestylers ***and*** job seekers.

Rental Market Remains Tight

- The Kelowna area vacancy rate will dip to less than one per cent in 2005, the lowest level since the early 1990s. Rents will continue to rise in response to sustained low vacancy rates.

LOCAL CMHC REPORTS - INFO YOU NEED FOR TODAY'S HOUSING MARKETS

HOUSING NOW

A monthly housing report focusing on your local market. It combines the latest data with expert analysis to answer all your critical information needs. Every issue contains local statistics on starts, absorptions, inventory, price trends and the economic factors that affect your market most. Clear, concise and easy to read. ***Housing Now*** is the ideal resource to stay on top of local trends and the state of the industry.

SENIORS' HOUSING MARKET SURVEY

Find out more about the Okanagan's big and growing seniors' rental housing market - current inventories, price trends and preferences. The ***Okanagan Seniors' Report*** is an annual publication. Available Now!

KELOWNA RENTAL MARKET REPORT

CMHC's annual ***Kelowna Rental Market Report*** gives you an in-depth look at vacancy and rental rate trends for all apartment and townhouses structures of three or more units. Information you need to know!

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FORECAST SUMMARY

Kelowna Area
Fall 2005

RESALE MARKET	2003	2004	2005*	2006*	% CHG.
MLS Active Listings (Sept.) **	906	1,600	1,254	1,400	25.2%
MLS Sales					
Total	3,863	3,978	4,480	4,425	12%
Single-Family	2,902	2,887	3,150	3,000	(5.0%)
Apartment	631	755	900	950	6%
Townhouse	330	336	430	475	10%
MLS Median Price					
Single-Family	$221,500	$267,000	$310,000	$335,000	8%
Apartment	$124,900	$159,900	$185,000	$200,000	8%
Townhouse	$158,000	$183,500	$225,000	$245,000	9%
NEW HOME MARKET					
Complete and Unoccupied (Sept.)	72	98	99	125	26%
Single-Family	47	61	64	70	9%
Multi-Family (excludes rental units.)	25	37	35	55	57%
Starts					
Total	2,138	2,228	2,700	2,400	(11%)
Single-Family	1,290	1,341	1,175	1,200	2%
Multi-Family	848	887	1,525	1,200	(21%)
Median New House Price	$279,250	$349,900	$370,000	$385,000	4%
Rental Market					
Vacancy Rate	1.6%	1.1%	0.9%	0.9%	
Rental Rate - % Chg. two bedroom	2.5%	3.7%	3.5%	3.5%	
Rental Housing Starts***	54	107	30	50	
ECONOMIC OVERVIEW					
Mortgage Rate (3 year term)	5.82%	5.65%	5.25-6.25%	5.25-6.25%	
Mortgage Rate (5 year term)	6.39%	6.23%	5.50-6.5%	5.50-6.50%	
Net Migration	2,750	3,750	4,000	4,000	

* Forecast. ** Single-detached, apartment and townhouse. *** Privately and publicly initiated units. Source: CMHC, Okanagan Mainline Real Estate Board.
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